



[BILLING CODE: 4810-033-P]

DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

**Agency Information Collection Activities; Proposed Information Collection;
Submission for OMB Review; Description: Risk Management Guidance for Higher
Loan-to-Value Lending Programs in Communities Targeted for Revitalization**

AGENCY: Office of the Comptroller of the Currency (OCC), Treasury.

ACTION: Notice and request for comment.

SUMMARY: The OCC, as part of its continuing effort to reduce paperwork and respondent burden, invites the general public and Federal agencies to take this opportunity to comment on a new information collection, as required by the Paperwork Reduction Act of 1995 (PRA).

In accordance with the requirements of the PRA, the OCC may not conduct or sponsor, and the respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The OCC is soliciting PRA-related comment concerning a new information collection titled, “Description: Risk Management Guidance for Higher Loan-to-Value Lending Programs in Communities Targeted for Revitalization” (bulletin).

DATES: You should submit written comments by **[INSERT DATE 30 DAYS FROM DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

ADDRESSES: Because paper mail in the Washington, DC area and at the OCC is subject to delay, commenters are encouraged to submit comments by e-mail, if possible.

Comments may be sent to: Legislative and Regulatory Activities Division, Office of the Comptroller of the Currency, Attention: 1557-NEW, 400 7th Street, SW., suite 3E-218, mail stop 9W-11, Washington, DC 20219. In addition, comments may be sent by fax to (571) 465-4326 or by electronic mail to prainfo@occ.treas.gov. You may personally inspect and photocopy comments at the OCC, 400 7th Street, SW., Washington, DC 20219. For security reasons, the OCC requires that visitors make an appointment to inspect comments. You may do so by calling (202) 649-6700, or for persons who are deaf or hard of hearing, TTY, (202) 649-5597. Upon arrival, visitors will be required to present valid government-issued photo identification and to submit to security screening in order to inspect and photocopy comments.

All comments received, including attachments and other supporting materials, are part of the public record and subject to public disclosure. Do not enclose any information in your comment or supporting materials that you consider confidential or inappropriate for public disclosure.

Additionally, please send a copy of your comments by mail to: OCC Desk Officer, 1557-NEW, U.S. Office of Management and Budget, 725 17th Street, NW., #10235, Washington, DC 20503, or by email to: oir_submission@omb.eop.gov.

FOR FURTHER INFORMATION CONTACT: Shaquita Merritt, Clearance Officer, (202) 649-5490, or for persons who are deaf or hard of hearing, TTY, (202) 649-5597, Legislative and Regulatory Activities Division, Office of the Comptroller of the Currency, 400 7th Street SW., Washington, DC 20219.

SUPPLEMENTARY INFORMATION:

Title: Description: Risk Management Guidance for Higher Loan-to-Value Lending Programs in Communities Targeted for Revitalization.

OMB Control No.: 1557-NEW.

Type of Review: Regular.

Abstract: Under the proposed bulletin, national banks and federal savings associations wishing to establish a program for originating certain owner-occupied residential mortgage loans where the loan-to-value (LTV) ratio at origination exceeds 100 percent in communities targeted for revitalization should have policies and procedures approved by their Board of Directors (Board) , or an appropriately designated committee, that address the loan portfolio management, underwriting, and other relevant considerations for such loans. The bulletin advises that banks also should notify the appropriate OCC supervisory office in writing at least 30 days prior to the date the bank intends to begin originating residential loans pursuant to an approved program or implementing any substantive change to a previously submitted program and provide a copy of the approved policies and procedures to the OCC supervisory office.

Affected Public: Businesses or other for-profit.

Burden Estimates:

Estimated Number of Respondents: 20.

Estimated Burden per Respondent for the First Year: Drafting Policies - 200 hours;
Documentation - 10 hours per quarter (i.e., 40 hours); Reporting - 10 hours.

Total Estimated Annual Burden: 5,000 hours.

Frequency of Response: On occasion.

The OCC issued a 60-day **Federal Register** notice regarding the collection on December 24, 2015, 80 FR 80458. The OCC received five comment letters on the information collection requirements contained in the bulletin, one from a group of three trade associations, two from community advocacy and homeownership non-profit organizations, one from a non-profit research and policy organization, and one from an individual.

The trade associations believed that the required processes explained in the proposed bulletin would be disproportionately burdensome for a *de minimus* volume of activity and that it would be impractical and unnecessary for banks to get board or committee approval of detailed policies in addition to quarterly reporting.

The OCC notes that existing regulations and guidelines permit an institution to make loans in excess of the supervisory loan-to-value (SLTV) ratio on an individual basis under specified conditions. The OCC is revising the bulletin to clarify that it applies to residential mortgage loans where the LTV ratio at origination exceeds 100 percent. Accordingly, some loans that exceed the SLTV ratio will be outside the scope of the bulletin. Additionally, the OCC is amending the bulletin to clarify that approval of the program policies and procedures should be by the board or “appropriately designated committee.”

The trade associations stated that the information currently provided to banks' internal risk management structures should be sufficient to oversee this lending. The commenters asserted that the reporting requirements should provide OCC with sufficient data to track performance without requiring banks to make data system changes that would be time-consuming and not cost-effective.

The OCC does not intend that banks will be required to change their data systems in order to offer a program under the bulletin. In describing the supervision of individual banks, the draft bulletin referred to consideration of "bank's internal reporting." After considering the comments suggesting concern about the OCC's anticipated data needs, the OCC has revised the bulletin to reiterate its intent to rely on bank-maintained data and to clarify that the supervisory focus will be on information about program performance and trends.

The trade association commenters also stated that excessive burdensome requirements undermine the goal of the proposed bulletin, which is to support bank efforts to make loans with LTVs greater than 90% in communities targeted for revitalization. They requested clarification that the OCC's annual review is of the overall guidance set forth in the proposed bulletin, not individual bank programs. They believe the OCC should rely on regular exam cycles to determine the program's continued viability and not subject the participating banks to another layer of supervision.

As noted above, the OCC is revising the bulletin to clarify that it applies to residential mortgage loans where the LTV ratio at origination exceeds 100 percent. In response to comments suggesting confusion about the annual review, the OCC revised the bulletin to clarify that the overall evaluation of programs that will occur at least

annually will focus on banks' programs as a whole. Finally, the OCC is revising the bulletin to clarify that for the supervision of individual banks, examiners will monitor and evaluate a program offered by a bank during scheduled supervisory activities, which should not add an additional layer of supervision.

Finally, one non-profit community advocacy group explained that through its experience working with financial institutions, clients, and community development organizations, it has determined that the burden of implementing this policy would be minimal. They suggested that if the OCC's policy contained in the draft bulletin avoids the unintended consequences of harming portfolio lending,¹ then there would be no burdens associated with this action.

A second non-profit community advocacy group noted the processes to be developed by the banks to facilitate the goals of the draft bulletin should make the analysis/approval processes of the institutions' policies commensurate with the risk of the mortgages and the small volume of lending likely to take place in each individual institution.

The non-profit research and policy organization believed that the proposed collection of information is necessary for the proper performance of the functions of the OCC and that the information has practical utility.

The individual commenter stated that the collection of information has no practical utility in terms of supporting long-term community revitalization because it sets

¹ Portfolio lending is lending retained for the lender's own investment purposes.

new, unjustified constraints on lending that contravene the White House-led Neighborhood Revitalization strategy.

The OCC believes that the bulletin encourages responsible, innovative lending and strikes an appropriate balance between the desire to encourage mortgage financing in distressed communities and the risks such financing may present to banks and mortgage loan borrowers. The programs contemplated by the bulletin offer market-based solutions by private lenders, and, therefore, should not contravene the White House's Neighborhood Revitalization Initiative, which involves federal programs.

Comments continue to be invited on:

- (a) Whether the collection of information is necessary for the proper performance of the functions of the OCC, including whether the information has practical utility;
- (b) The accuracy of the OCC's estimate of the information collection burden;
- (c) Ways to enhance the quality, utility, and clarity of the information to be collected;
- (d) Ways to minimize the burden of the collection on respondents, including through the use of automated collection techniques or other forms of information technology; and
- (e) Estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

Guidance: The text of the guidance² is as follows:

Description: Risk Management Guidance for Higher Loan-to-Value Lending Programs in Communities Targeted for Revitalization

Summary

The Office of the Comptroller of the Currency (OCC) supports efforts by national banks and federal savings associations (collectively, banks) to assist in the revitalization, stabilization, or redevelopment (referred to in this bulletin individually and collectively as revitalization) of distressed communities through responsible residential mortgage lending. The OCC recognizes that banks and other parties have expressed concern that depressed housing values in certain distressed communities in the United States inhibit mortgage lending in these communities. One way in which banks can support revitalization efforts in distressed communities is by offering mortgage products for the purchase of, or the purchase and rehabilitation of, one- to four-unit residential properties. This bulletin provides guidance for managing risks associated with programs in which residential mortgage loans are originated where the loan-to-value ratio (LTV) at origination exceeds 100 percent (referred to in this bulletin as higher LTV loans).

Note for Community Banks

This guidance applies to all OCC-supervised banks wishing to establish a program for originating higher LTV loans in communities targeted for revitalization. The guidance may offer an opportunity for community-focused banks to develop collaborative relationships with one another. Any such arrangements should be consistent with the OCC's paper entitled "An Opportunity for Community Banks: Working Together Collaboratively" that the OCC issued on January 13, 2015.³ As noted in the paper, banks should take care to ensure that any collaboration with third parties is subject to effective strategic planning, risk management, and oversight.

Highlights

This bulletin provides guidance regarding the

- circumstances under which banks may establish programs to originate certain higher LTV loans.
- OCC's supervisory considerations regarding such programs.

As described in this bulletin, the OCC will actively monitor and evaluate the programs established by banks, including the performance of higher LTV loans. Additionally, at

² The OCC plans to issue this guidance in the form of a bulletin directed to national banks and federal savings associations.

³ Refer to OCC NR 2015-1 "Collaboration Can Facilitate Community Bank Competitiveness, OCC Says."

least annually, the OCC will assess the extent to which banks' collective programs are contributing to the revitalization of eligible communities and whether banks are adequately controlling the risks associated with originating higher LTV loans.

Background

Home values in some U.S. communities remain depressed, in part as a result of the financial crisis. These depressed home values contribute to financing difficulties being experienced by creditworthy borrowers seeking home loans in those communities.

As these communities work to stabilize home ownership levels and home values, the rehabilitation of abandoned or distressed housing stock is an important component of broader efforts to strengthen communities. Local governments, government-affiliated entities, community-based organizations, financial institutions (including banks), and others have developed creative solutions for some of these challenges. These solutions include strategies for acquiring and rehabilitating properties in communities targeted for revitalization. Community groups, financial institutions (including banks), non-profit organizations, and state and local entities, including land banks, are working together to develop and implement innovative residential mortgage financing to bring needed lending to economically distressed areas. The efforts include providing second-lien loans to finance rehabilitation costs, interest-rate discounts, and down payment and closing cost assistance. Additionally, the Federal Housing Administration, Fannie Mae, and Freddie Mac all currently offer rehabilitation financing.⁴

In addition to participating in these and other third-party efforts, banks have expressed a desire to participate in revitalization efforts of distressed communities by offering their own loan products. The value of the collateral in communities where home values remain depressed often can present challenges to banks' residential lending in part because of current supervisory loan-to-value (SLTV) limits. These SLTV limits generally provide that owner-occupied residential loans with LTVs above 90 percent should have appropriate credit enhancement (e.g., mortgage insurance or readily marketable collateral). Distressed sales, including short sales and foreclosures, have negatively affected home values in these communities. Further, in communities with minimal sales activity, finding comparable property sales becomes challenging when appraisals or evaluations are required. All of these factors contribute to buyers of distressed properties experiencing difficulty securing adequate financing to cover the often substantial renovation costs required to make the properties habitable.

The OCC recognizes that supporting long-term community revitalization may necessitate responsible, innovative lending strategies. One way in which banks can support revitalization efforts is through lending within established exceptions to the SLTV limits for residential loans. Existing regulations and guidelines already recognize that it may be appropriate, in individual cases, for banks to make loans in excess of the SLTV limits,

⁴ Programs include the Federal Housing Administration's Limited 203(k) Rehabilitation Mortgage Insurance Program, Fannie Mae HomeStyle Renovation, and Freddie Mac Construction Conversion and Renovation Mortgages.

based on support provided by other credit factors.⁵ The regulations and guidelines also recognize that banks may provide for prudently underwritten exceptions for creditworthy borrowers whose needs do not fit within the banks' general lending policies, including SLTV limits, on a loan-by-loan basis under certain conditions.⁶ These conditions include that the aggregate amount of all loans in excess of the SLTV limits (which includes higher LTV loans) should not exceed 100 percent of total capital, that the boards of directors establish standards for reviewing and approving exception loans, and that written justification setting forth relevant credit factors accompany all approvals of exception loans.⁷ Credit factors for these purposes may include the borrower's capacity to adequately service the debt, the borrower's overall creditworthiness, and the level of funds invested in the property.⁸

The OCC believes that in some circumstances, a bank also can design a *program* to offer higher LTV loans in communities targeted for revitalization in a manner consistent with safe and sound lending practices and current regulations and guidelines. As described in the "Program Criteria" section of this bulletin, such loans may include loans in eligible communities originated in accordance with the bank program's policies and procedures. Important elements of such a program are the bank's policies and procedures for complying with the ability-to-repay standard of Regulation Z⁹ and the bank's separate underwriting standards and approval processes for higher LTV loans.

Bank lending under such a program may serve the credit needs of individual borrowers and the community, and the bank may receive Community Reinvestment Act consideration depending on the specifics of the program. The origination of higher LTV loans is not, however, without risk. Using internal bank data, the OCC will monitor and evaluate the performance of a bank's program loans and how a bank's program manages both risks to the bank and its borrowers. For its aggregate assessment, which will occur at least annually, the OCC will evaluate the collective impact of programs offered by all banks in eligible communities. In assessing the impact of one or more programs in eligible communities, the OCC recognizes that revitalization efforts may be a multi-year undertaking.

I. Program Criteria

⁵ For national banks, refer to 12 CFR 34, appendix A to subpart D, "Interagency Guidelines for Real Estate Lending Policies." For federal savings associations, refer to 12 CFR 160.101, appendix to 12 CFR 160.101, "Interagency Guidelines for Real Estate Lending Policies."

⁶ Id.

⁷ Id.

⁸ Id.

⁹ The Dodd-Frank Wall Street Reform and Consumer Protection Act amended the Truth in Lending Act to require creditors to make a reasonable, good faith determination of a consumer's ability to repay a mortgage loan, absent specified exceptions. Refer to 15 USC 1639c. The Consumer Financial Protection Bureau issued a final rule amending Regulation Z to implement these ability-to-repay requirements, which became effective January 1, 2014. Refer to 78 Fed. Reg. 6621, January 30, 2013.

A. Program Loan

The proceeds of a program loan should be used to finance the purchase of,¹⁰ or purchase and rehabilitation of, an owner-occupied residential property located in an eligible community. A program loan should be a permanent first-lien mortgage with an LTV ratio at the time of origination that exceeds 100 percent, without mortgage insurance, readily marketable collateral, or other acceptable collateral. A program loan also should have an original loan balance of \$200,000 or less and be originated under a program developed pursuant to this bulletin.

For purposes of this bulletin

- “rehabilitation” means the repairs necessary to improve a property in substandard condition to a level consistent with applicable building codes. A property is in “substandard condition” when its present condition endangers the health, safety, or well-being of the occupant(s) such that it requires extensive repair for the property to be habitable.
- a “purchase and rehabilitation” loan includes a loan that finances
 - the purchase of the property, plus the projected rehabilitation costs; or
 - the amount of a purchase consummated not more than six months before the date of the bank’s loan commitment, plus the projected rehabilitation costs.

Program loans do not include home equity loans, lines of credit, or refinancing loans.

B. Eligible Community

An eligible community should be one that has been officially targeted for revitalization by a federal, state, or municipal governmental entity or agency, or by a government-designated entity such as a land bank.

C. Program Policies and Procedures

Existing regulations and guidelines require that each bank adopt and maintain a general lending policy that establishes appropriate limits and standards for extensions of credit that are secured by liens on or interests in real estate or that finance building construction or other improvements.¹¹ In addition to the general lending policies developed pursuant to existing regulations and guidelines, banks should have specific policies and procedures for program loans that are approved by the board of directors, or an appropriately designated committee, and that address loan portfolio management, underwriting, and

¹⁰ An example is the purchase of a recently rehabilitated property.

¹¹ For national banks, refer to 12 CFR 34, “Real Estate Lending and Appraisals,” appendix A to subpart D, “Interagency Guidelines for Real Estate Lending Policies.” For federal savings associations, refer to 12 CFR 160.101, “Real estate lending standards,” appendix to 12 CFR 160.101, “Interagency Guidelines for Real Estate Lending Policies.”

other relevant considerations. These policies and procedures should include provisions that address the

- defined geographies of an eligible community where the bank will consider making program loans¹² and describe how the program loans are intended to support revitalization efforts in the eligible community (e.g., how the origination of program loans is expected to contribute to the normalization of a distressed housing market).
- amount, and the duration, of the bank's financial commitment to the program.
- limitation on the aggregate level of committed program loans as a percentage of tier 1 capital (as defined in 12 CFR 3.2), which should not exceed 10 percent.
- characteristics of program loans, including loan structure, credit terms, interest rate and fees, and maximum loan size, which should not exceed \$200,000.
- underwriting standards and approval processes for program loans, including appropriate documentation of relevant credit factors and document retention standards.
- real estate appraisal and evaluation criteria applicable to program loans.¹³
- credit administration requirements for program loans, including detailed guidelines regarding oversight of the rehabilitation process, such as controls over contracts, disbursements, inspections, and project management.
- compliance with all applicable laws and regulations, including the ability-to-repay and other requirements of 12 CFR 1026, anti-discrimination laws, and section 5 of the Federal Trade Commission Act.
- content, form, and timing of notice(s) the bank will provide in connection with program loans to clearly inform the borrower that
 - the market value of a property securing a higher LTV loan is less than the loan amount at origination.
 - the market value of a rehabilitated property likely will be less than the original loan amount upon completion of the rehabilitation.
 - the market value may continue to be less than the original loan amount thereafter and for the duration of the loan.
 - there may be financial implications to the borrower if the borrower seeks to sell the property after rehabilitation and the sale price of such rehabilitated property is less than the outstanding loan balance at the time of such sale, and explain the implications.
- incentives that may be available to qualifying borrowers (e.g., assistance or grants for down payments, fees, and closing costs; at or below market interest rates; or rewards for long-term occupancy) and home buyer education or other counseling that may be provided by or through the bank or its third-party partners.

¹² Banks should retain documentation indicating: (1) the eligible community is one targeted for revitalization by a government entity or agency; (2) the specific revitalization criteria used by the government entity or agency; and (3) the type of financing and other support, if any, that the governmental entity or agency provides to the community.

¹³ For all mortgage loan transactions based on an appraisal, banks should select and engage appraisers with local market competency in valuing the property securing a program loan. Similarly, any evaluation, if applicable, should be credible and consistent with safe and sound banking practices. Given the unique underwriting considerations, banks should not use automated valuation models in connection with these programs.

- monitoring and internal reporting requirements sufficient to: (1) assess program performance and trends; and (2) inform the board, or appropriately designated committee, on at least a quarterly basis of the aggregate dollar amount, and percentage of tier 1 capital, of committed program loans in relation to the program limitations.

D. Notice to the OCC

The bank should notify the appropriate OCC supervisory office in writing at least 30 days before the bank intends to begin originating program loans or to make any substantive change to a previously submitted program. Substantive changes may include the addition of a new eligible community, an increase in the financial commitment or duration of a program, or material changes to program loan characteristics or underwriting standards. Such notice should include

- the date the bank's board (or appropriately designated committee) approved the program policies and procedures.
- a copy of the program policies and procedures.

II. OCC Supervisory Considerations

A. Supervision of Individual Banks

After receiving the bank's notice to the OCC, examiners will evaluate the bank's program to assess whether it is consistent with safe and sound lending practices and the guidelines outlined in this bulletin. Examiners' assessment will include reviewing the

- characteristics of program loans and incentives, if available, to qualifying borrowers.
- standards for the underwriting, collateral review, credit administration, and approval of program loans.
- borrower notice(s).
- monitoring and reporting procedures for program loans.
- process for ensuring compliance with all applicable laws and regulations.
- financial commitment (as a dollar amount and a percentage of tier 1 capital) and defined geographies for originating program loans.

In connection with the evaluation of the bank's program, examiners may request clarification or changes to the bank's policies and procedures before the bank's first origination of a program loan or the bank's making of any substantive change to a previously submitted program. Such requests may include clarification or changes to ensure the program is consistent with safe and sound lending practices.

Examiners also will monitor and evaluate the bank's program during scheduled supervisory activities. Examiner evaluations will include consideration of the

- bank's governance of the program and whether the program adequately manages the various risks.
- performance of program loans and whether delinquent program loans are managed and accurately classified consistent with the OCC's existing guidance on delinquent loans and in compliance with applicable laws pertaining to loans in delinquency.¹⁴
- bank's internal reporting of program performance and trends.
- process to establish and document community development consideration, if applicable, under the Community Reinvestment Act.

Banks with programs that are found to have unsatisfactory governance or controls will be expected to undertake corrective action in order to continue the lending activity in a safe and sound manner. In addition, examiners may review individual program loans to assess asset quality, credit risk, and consumer compliance.

B. Overall Evaluation of Programs

At least annually, the OCC will evaluate the extent to which banks' programs on the whole are contributing to the revitalization efforts in eligible communities. The OCC's evaluations will consider, among other matters, the effect such programs have had on the housing markets and other economic indicators in eligible communities targeted by the programs, whether the programs adequately control the various risks, and the general performance of program loans. The OCC recognizes that it may take multiple years before revitalization efforts in eligible communities result in material changes.

Based on these evaluations, the OCC may amend or rescind this bulletin. Any decision by the OCC to materially amend or rescind this bulletin will apply only to the origination of new higher LTV loans. Any loans originated that are consistent with this bulletin, or any subsequent revisions thereof, when made will not be deemed to be unsafe and unsound solely because of any measurable amendment or rescission of this bulletin.

Dated: June 14, 2016.

Stuart E. Feldstein,
Director, Legislative and Regulatory Activities Division.

¹⁴ Applicable laws may include (1) Regulation X, 12 CFR 1024, which provides mortgage servicing standards, including early intervention requirements and loss mitigation procedures and (2) Regulation Z, 12 CFR 1026, which establishes requirements for including delinquency-related information on the periodic statements required for residential mortgage loans.

